

Memorandum

To: David Fitzpatrick
Michael Hain
City of Toronto

From: Mark Conway, MCIP, RPP, President,
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RE: Economic Impacts of Removal of Minimum City Parking Standard

1.0 Summary Opinion

The City of Toronto has asked that NBLC report on the possible impacts associated with the elimination of minimum parking standards as they relate to high-density residential uses. Our report makes the following central observations.

- The elimination of parking standards is viewed as a positive step towards improving the supply and reducing costs associated with the delivery of housing in Toronto.
- In the absence of minimum parking standards, market demand will drive the need for parking.
- Approval of this initiative will have a range of impacts depending on the development location and market conditions. In general terms, projects in more suburban areas of the City where parking is required by the market, will benefit less than transit-oriented developments.
- The elimination of minimum parking standards will lower the delivery cost of housing. However, housing prices are established based on the characteristics of supply and demand. In high demand areas we would not expect a reduction in parking to influence pricing. However, in weaker market areas, reduced parking could help bring housing to the market at a more affordable price point.
- The elimination of parking standards could make sites that were previously unsuitable for redevelopment, feasible further assisting supply side issues.
- In instances where the City's parking minimums currently exceed the market demand, the elimination of minimum standards would have one of the following general impacts:

- For developers who have owned/acquired high-density residential development land under the assumption of having to provide more parking than required by the market, the opportunity to reduce the parking will create cost savings which could improve the net revenue of the development.
- For projects that are developed on land acquired after Council’s decision to remove the minimum standard, the impacts will largely occur in the form of increased land value.
- In areas of the City where Council has routinely reduced parking standards through zoning bylaw amendments to align with market demand the impacts may be negligible.
- The costs savings associated with the reduction of parking requirements should allow for increased affordable housing for programs such as Housing Now on City-owned land.
- The elimination of minimum parking standards can help in some circumstances to offset the loss of revenue associated with properties subject to Inclusionary Zoning polices.

2.0 Introduction

The City of Toronto has asked N. Barry Lyon Consultants Limited (NBLC) to comment on selected economic aspects of a proposal to eliminate minimum parking standards for high-density residential development. Specifically, we have been asked to respond to the following:

- The variables that shape economic impacts of reduced parking.
- Whether the removal of parking requirements could impact the price of homes.
- Potential outcomes from the scenarios identified by staff. Specifically, you have asked us to respond to the following questions:
 - “In cases where a developer is forced to build more parking than they are able to sell, or where they are forced to sell the parking for less than the cost of construction, who makes up the difference?”
 - “If parking minimums are removed, how will that impact developers' pro formas?”
- Potential impacts for the City of Toronto as it considers the use of city-owned land to advance the development of affordable housing (through Housing Now, or similar).
- The interaction between removing minimum parking requirements and the introduction of inclusionary zoning, if any.

3.0 Variables Influencing the Economic Impacts of Parking

If City Council eliminates minimum parking standards, the requirement for parking in a high-density residential building, in either rental or condominium tenure, will be driven solely by the market demand. Therefore, the amount of parking required is a function of the combined and interrelated impacts of the:

- Project location: i.e. Urban, Suburban, Transitioning.
- Project positioning: i.e. Luxury, Student, Empty Nester, Mid Market.
- Strength of the market and competitive influences.
- Timing of the land acquisition: whether the land was purchased before or after the reduction in standards was approved.

3.1 Project Location

The project location can have a significant bearing on the need for parking. In suburban locations, such as Kingston Road or the Finch Corridors, the market will typically demand parking irrespective of the City's requirements. In these areas Council's decision to eliminate minimum parking standards may have less economic impacts. In downtown transit locations the market typically demands very little parking. These sites will generally benefit more from the potential change in policy.

3.2 Project Positioning

How a project is positioned in the marketplace will also have a bearing on parking demand. For example:

- **Luxury Project in Yorkville:** A downtown project close to a transit station and positioned to the luxury market will need to provide more parking than a similarly located development positioned to entry level buyers. In this case, the luxury project, despite the reduced standards, will not significantly benefit economically from the reduced standard.
- **Project Positioned to Student Renters:** A development positioned to students near the University of Toronto Scarborough Campus, York University or Humber College in Etobicoke could, however, benefit greatly. These areas typically demand higher parking requirements from a market perspective. However, a condominium or rental building that is positioned to student renters could successfully market the building with little parking. The associated reduced costs could help increase the viability of the development.

3.3 Strength of the Market and Competitive Positioning

The amount and need for parking can be a function of the overall demand for housing, as well as the local competition.

Developers have used parking as a way to differentiate their developments to attract market demand. In weaker market areas or during times when overall demand is soft – developers have historically used parking as an incentive to provide a competitive edge. While less common in the downtown core, aggressive or even free parking has been used in the past to accelerate sales or to provide an edge over local competition. If a site is surrounded by competitive projects that have little parking, a developer may decide to offer parking to create a competitive choice.

3.4 Timing of Land Acquisition

The timing of the ownership/acquisition of a property for a high-density development relative to Council's decision to eliminate minimum parking standards also has a bearing on the economic impact of the initiative.

In simple terms, if a developer has owned, or recently acquired, a property with an expectation that the City would require a minimum number of parking spaces, the elimination of this requirement could represent a cost savings and potential for improved project returns. The amount of cost savings will vary depending on the difference between the City's parking requirement and the amount demanded by prospective purchasers or tenants. It will also vary depending on the price those purchasers or tenants are willing to pay for parking relative to the cost of constructing the parking.

However, in areas of the City where approvals for reduced or no parking, especially at transit station sites have become routine, it is possible that these savings were already considered in the land acquisition stage and therefore there would be minimal impacts.

If a developer purchases a development site after Council's approval of the elimination of minimum standards, this reduced cost could have the impact of increasing the land values. However, this impact is limited to sites where the market also allows a reduction in parking.

Where the parking requirement and market demand are closely aligned, the policy change will likely have little impact on development viability, land values, or developer net revenues.

4.0 The Impact on the Price of Homes

Unbundling parking from units can be an important measure to improve housing affordability as it lowers the minimum construction cost to deliver a unit, thereby making projects financially viable at lower sale prices.

However, home prices are established based on the characteristics of supply and demand. Developers typically price housing at the maximum the market will bear, regardless of the costs of construction. Reduced parking in high demand area such as Yonge-Eglinton or the Danforth may have little bearing on home prices.

However, in areas such as Weston Road, Guildwood Village or Jane Finch where the high-density market is just beginning to emerge, the savings associated with reduced parking could help bring housing products to market at a lower price point.

Overall, the time and costs savings associated with the reduction in parking could have a material impact on the viability and delivery of projects irrespective of the project location. This could help accelerate the supply of housing which may help to alleviate some upward pressure on Toronto home prices.

5.0 The Impact of Parking Losses

The City has asked us to respond to the following question specifically:

“In cases where a developer is forced to build more parking than they are able to sell, or where they are forced to sell the parking for less than the cost of construction, who makes up the difference?”

In the case where a developer is required to build more parking than they can sell the impacts will vary. Land values are established largely by assessing the development potential of the site and the associated revenues that are likely to be generated from the project. The developer then deducts from these revenues the associated costs of development and the necessary returns to arrive at the land value that can be paid for the property. In the case where a developer is considering the purchase of a site and understands, in advance, that they are required to build more parking than the market demands, or in the situation where the market value of the parking space is less than the cost of construction, these development costs, as all others are calculated deducted from the land value.

Another scenario could be where the developer has already initiated a development and parking demand is weaker than forecasted. In this case, pricing has already been established and some units sold. It is possible that a pricing increase could be applied on the remaining units but only at the risk of stagnating sales. Otherwise, the costs would need to be absorbed in the developer’s profit

If the cost of building the additional parking cannot be offset by project revenues, the project is considered financially infeasible and will not be pursued.

6.0 The Impact on the Developers’ Pro forma

The City has also asked this specific question:

“If parking minimums are removed, how will that impact developers’ pro formas?”

If the amount of parking can be reduced or eliminated for a residential development project, then the main impact to the developer pro-forma will be:

- reduced construction costs; and,
- faster project implementation.

As discussed, where the land has been acquired prior to Council’s decision to eliminate minimum standards the costs and timing savings associated with reduced parking requirements could result in improved developer revenues.

However, Council has frequently approved parking reductions to match the market demand for parking in high-density residential developments, especially around sites serviced by transit. For this

reason, it is likely that in many areas of the City the market price of land already reflects some form of reduction from the city's current minimum parking standards.

In some situations, the impact will be to reduce construction costs such that it makes a previously unfeasible project now viable. The cost reduction may offset the costs imposed by extraordinary site conditions such as unstable soils, a high-water table or site planning challenges. As previously mentioned, the lower construction costs could also improve the viability of sites at more affordable sale prices or rents, thereby encouraging investment activity in weaker market locations.

As discussed, if land is acquired after Council's approval of reduced parking requirements the cost savings associated with reduced parking could have the impact of increasing the land value of the property. However, this impact is limited to sites where the market also allows a reduction in parking.

7.0 Impacts on City-owned land Affordable Housing Initiatives

The impact of reduced parking costs for initiatives on City-owned properties such as Housing Now will be to allow for costs that would have spent on parking to be diverted to affordable housing.

8.0 The Interaction with Inclusionary Zoning

Inclusionary Zoning requirements, as approved by the City, will have the impact of reducing project revenues. The cost savings associated with the proposed reduction of parking minimums will help in some situations to offset these revenue losses.